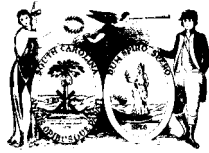


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

January 27, 2003

Ms. Carol Disbro, Director of Reimbursement  
Integrated Health Services, Inc.  
The Highlands  
910 Ridgebrook Road  
Sparks, Maryland 21152

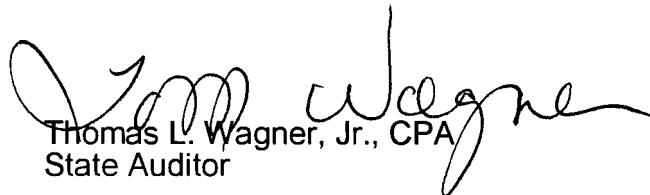
Re: AC# 3-MCL-J8 – Magnolia Manor – Columbia, Inc.

Dear Ms. Disbro:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Joseph P. Hayes

**MAGNOLIA MANOR – COLUMBIA, INC.**

**COLUMBIA, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 1999  
AC# 3-MCL-J8**

**AGREED-UPON PROCEDURES REPORT**

**ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

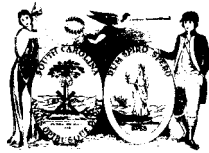
**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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# State of South Carolina



## Office of the State Auditor

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 23, 2002

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Magnolia Manor – Columbia, Inc., for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. The management of Magnolia Manor – Columbia, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

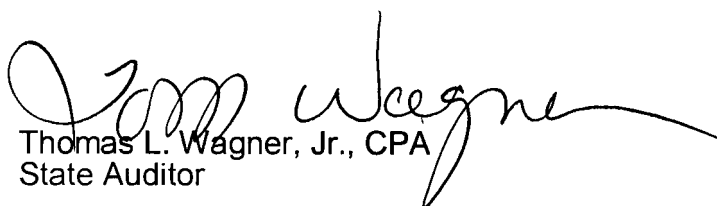
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Magnolia Manor – Columbia, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Magnolia Manor – Columbia, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
October 23, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA  
State Auditor

**MAGNOLIA MANOR – COLUMBIA, INC.**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 1999  
AC# 3-MCL-J8

10/01/99-  
09/30/00

Interim Reimbursement Rate (1)	\$98.13
Adjusted Reimbursement Rate	<u>92.62</u>
Decrease in Reimbursement Rate	\$ <u><u>5.51</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

**MAGNOLIA MANOR – COLUMBIA, INC.**

Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1999 Through September 30, 2000  
AC# 3-MCL-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$40.26	\$47.61	
Dietary		9.08	10.24	
Laundry/Housekeeping/Maintenance		<u>7.91</u>	<u>8.89</u>	
Subtotal	<u>\$4.67</u>	57.25	66.74	\$57.25
Administration & Medical Records	<u>\$ -</u>	<u>12.60</u>	<u>11.39</u>	<u>11.39</u>
Subtotal		69.85	<u>\$78.13</u>	68.64
<u>Costs Not Subject to Standards:</u>				
Utilities		2.93		2.93
Special Services		1.10		1.10
Medical Supplies & Oxygen		4.97		4.97
Taxes and Insurance		1.82		1.82
Legal Fees		<u>.01</u>		<u>.01</u>
<b>TOTAL</b>		<u>\$80.68</u>		79.47
Inflation Factor (3.00%)				2.38
Cost of Capital				7.03
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				4.67
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.92)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>1.24</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$92.62</u>

**MAGNOLIA MANOR – COLUMBIA, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MCL-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,314,451	\$ 6,444 (4)	\$ 4,014 (1) 46,385 (3) 16,286 (4)	\$1,254,210
Dietary	305,923	-	235 (4) 22,714 (6)	282,974
Laundry	46,921	-	-	46,921
Housekeeping	123,360	-	-	123,360
Maintenance	76,200	-	47 (4)	76,153
Administration & Medical Records	367,392	9,102 (1) 46,385 (3) 2,721 (4) 7,622 (4)	40,734 (5)	392,488
Utilities	91,241	-	-	91,241
Special Services	76,904	-	220 (4) 2,013 (5) 33,770 (7) 6,684 (8)	34,217
Medical Supplies & Oxygen	187,485	2,416 (8)	35,133 (2)	154,768
Taxes and Insurance	56,555	-	-	56,555
Legal Fees	449	-	-	449



**MAGNOLIA MANOR – COLUMBIA, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MCL-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	227,213	-	7,432 (5)	219,014
			767 (9)	
Subtotal	2,874,094	74,690	216,434	2,732,350
Ancillary	125,450	33,249 (2)	-	158,699
Non-Allowable	324,910	1 (4)	5,088 (1)	431,085
		50,179 (5)		
		22,278 (6)		
		33,770 (7)		
		4,268 (8)		
		767 (9)		
Total Operating Expenses	<u>\$3,324,454</u>	<u>\$219,202</u>	<u>\$221,522</u>	<u>\$3,322,134</u>
Total Patient Days	<u>31,156</u>	<u>-</u>	<u>-</u>	<u>31,156</u>
Total Beds	<u>88</u>			

**MAGNOLIA MANOR – COLUMBIA, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-MCL-J8

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Administration	\$ 9,102	
	Nursing		\$ 4,014
	Nonallowable		5,088
	To adjust Premiere fees		
	HIM-15-1, Section 2304		
2	Ancillary	33,249	
	Other Equity	1,884	
	Medical Supplies & Oxygen		35,133
	To reclass prescription drugs and		
	remove prior period expense		
	HIM-15-1, Section 2302.1		
	DH&HS Expense Checklist		
3	Medical Records	46,385	
	Nursing		46,385
	To reclassify salaries to the		
	proper cost center		
	HIM-15-1, Sections 2304 and 2313.2		
	DH&HS Expense Checklist		
4	Restorative	6,444	
	Administration	2,721	
	Medical Records	7,622	
	Nonallowable	1	
	Nursing		16,286
	Dietary		235
	Maintenance		47
	Special Services		220
	To adjust fringe benefits and		
	related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
5	Nonallowable	50,179	
	Administration		40,734
	Special Services		2,013
	Cost of Capital		7,432
	To adjust home office expense		
	HIM-15-1, Section 2304		

**MAGNOLIA MANOR – COLUMBIA, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-MCL-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Vending Income Dietary	22,278 436	22,714
	To properly offset income against related expense HIM-15-1, Sections 2102.3 and 2328		
7	Nonallowable Special Services	33,770	33,770
	To adjust co-insurance for Medicare Part B services State Plan, Attachment 4.19D		
8	Nonallowable Medical Supplies & Oxygen Special Services	4,268 2,416	6,684
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
9	Nonallowable Cost of Capital	767	767
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$221,522</u>	<u>\$221,522</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MAGNOLIA MANOR – COLUMBIA, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MCL-J8

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2,2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>88</u>
Deemed Asset Value	3,091,440
Improvements Since 1981	49,172
Accumulated Depreciation at 9/30/98	<u>(862,877)</u>
Deemed Depreciated Value	2,277,735
Market Rate of Return	<u>.063</u>
Total Annual Return	143,497
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	143,497
Depreciation Expense	77,592
Amortization Expense	122
Capital Related Income Offsets	(2,197)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	219,014
Total Patient Days (Minimum 97% Occupancy)	<u>31,156</u>
Cost of Capital Per Diem	\$ <u><u>7.03</u></u>

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